

**MINUTES OF THE REGULAR MEETING OF THE
ARIZONA STATE RETIREMENT SYSTEM BOARD**

**HELD ON
Friday, April 16, 1999
9:00 A.M., M.S.T.**

The Arizona State Retirement System (ASRS) Board met in the 10th Floor Board Room of the ASRS office at 3300 North Central Avenue, Phoenix, Arizona 85012. Dr. Chuck Essigs, Acting Chairman, Arizona State Retirement System Board called the meeting to order at 9:03 A.M., MST.

The meeting was teleconferenced to the ASRS office, 7660 East Broadway Boulevard, Suite 108, Tucson, Arizona 85710.

1. Call to Order; Roll Call.

Present: Dr. Chuck Essigs, Acting Chairman
Mr. David Borg
Mr. James Bruner
Dr. Merlin DuVal
Mr. Alan Maguire
Mr. Norman Miller

Excused: Mr. James Jenkins
Mr. Karl Polen
Mr. Ray Rottas

A quorum was present for the purpose of conducting business.

2. Approval of Minutes of the March 19, 1999 Regular Meeting of the Arizona State Retirement System Board and the Minutes of the March 19, 1999 Executive Session.

Motion: Dr. Merlin DuVal moved to approve the minutes of the March 19, 1999 regular meeting of the ASRS Board and the minutes of the March 19, 1999 executive session.

Mr. Norman Miller seconded the motion.

By a vote of 6 in favor, 0 opposed, 0 abstentions, 3 excused, the motion was approved.

3. Board Approval of Consent Schedule.

Motion: Mr. Norman Miller moved that the ASRS Board approve the Summary Report of Retirements, Refunds, and Death Benefits; System Transfers; and Applications and Agreements between Employers and the Arizona State Retirement System.

Mr. Alan Maguire seconded the motion.

By a vote of 6 in favor, 0 opposed, 0 abstentions, 3 excused, the motion was approved.

4. Board Hearing and Action by the Board Regarding the Request for Hearing of Ms. Linda Fern Eisele.

The Board reviewed the independent medical examination report from David A. Bliklen, MD of Medical Neurology, LTD. regarding Ms. Linda Fern Eisele. Ms. Pamela Moore, a representative from Fortis, the ASRS long-term disability administrator, joined the discussion via teleconference call.

Board discussion with Ms. Linda Fern Eisele, Ms. Moore and Mr. Fred Stork, Assistant Attorney General representing the ASRS, regarding the nature of Ms. Eisele's disability resulted in the following motion:

Motion: Mr. Alan Maguire moved that the Board finds that Linda Fern Eisele ceased to be totally disabled as of July 26, 1997 and is not entitled to LTD benefit payments after July 26, 1997.

Mr. Jim Bruner seconded the motion.

By a vote of 6 in favor, 0 opposed, 0 abstentions, 3 excused, the motion was approved.

5. Board Hearing and Action by the Board Regarding the Request for Hearing of Mr. Donald E. Rider.

The Board reviewed the request of Mr. Donald E. Rider that he be allowed to rescind his retirement and apply for LTD benefits retroactively to the date of termination of his employment, December 12, 1997. Ms. Pamela Moore, a representative from Fortis, the ASRS long-term disability administrator, joined the discussion via teleconference call.

Board discussion with Mr. Donald Rider, Ms. Moore and Mr. Fred Stork, Assistant Attorney General representing the ASRS, regarding the nature of Mr. Rider's medical condition and termination of employment resulted in the following motion:

Motion: Mr. James Bruner moved that the Board instruct Fortis to undertake the review of Mr. Donald Rider's medical documents to assist in determining his eligibility for LTD effective his last day of employment, December 12, 1997, with a report back to the Board for further consideration.

Dr. Merlin DuVal seconded the motion.

By a vote of 6 in favor, 0 opposed, 0 abstentions, 3 excused, the motion was approved.

6. Presentation, Discussion and Appropriate Action Regarding an Asset Allocation Policy for LTD and Health Assets.

Mr. James Bruner reported that the Investment Review Board Committee met to discuss and review the Long Term Disability and Health Benefit Asset Allocation Policy. The recommended investment plan includes the following:

Recommended Asset Mix

	<u>LTD</u>	<u>HBS</u>
Cash	1%	
Domestic Equity	50%	50%
International Equity	15%	15%
Domestic Fixed Income	34%	35%

Recommended Asset Management

Health Benefit Supplement

- ☐ Commingle entire asset base with the ASRS asset base
- ☐ Deploy cash to existing under-weighted asset classes and investment managers
- ☐ Eliminate separate cash account

Long Term Disability

- ☐ Separate account requirements
- ☐ Passive approach due to economies of scale
- ☐ Deploy cash to existing passive manager
- ☐ Retain separate STIF account

Motion: Mr. James Bruner moved to approve the commingling of all the short-term investments of approximately \$154 million of the Health Benefit Supplement plan with the currently commingled ASRS Pension and Health Benefit Supplement investments, and to use these assets to rebalance the ASRS Commingled Fund according to the current ASRS Fund asset allocation policy, as described in the presentation, and as recommended by the Investment Review Board Committee.

AND

Moved to approve the investment of the short-term investments of approximately \$67 million of the Long Term Disability (LTD) plan with Barclays Global Investors (BGI), and to use these assets to create a passively managed LTD Fund with a policy asset mix of: 50% U.S. Equities (S&P 500); 15% International Equities (EAFE); 34% Fixed Income (Lehman Aggregate); 1% cash and equivalents; and a rebalancing strategy as described in the presentation, and as recommended by the Investment Review Board Committee.

Dr. Merlin DuVal seconded the motion.

By a vote of 6 in favor, 0 opposed, 0 abstentions, 3 excused, the motion was approved.

7. Presentation, Discussion and Appropriate Action Regarding the Approval of the Investment Review Board Committee 1999 Meeting Schedule.

Mr. James Bruner reported that the Investment Review Board Committee compiled a meeting schedule whereby regularly scheduled meetings occur the first Tuesday of each month at 2:00 p.m. The Chairman of the Committee will have the authority to cancel those meetings for which there are no agenda items.

Motion: Mr. James Bruner moved to approve the 1999 Meeting Schedule for the Investment Review Board Committee.

Mr. Alan Maguire seconded the motion.

By a vote of 6 in favor, 0 opposed, 0 abstentions, 3 excused, the motion was approved.

8. Presentation, Discussion and Appropriate Action Regarding a Policy and Procedure on the Procurement of Professional Services, Including Investment Management and Investment Consulting.

Mr. Alan Maguire reported that the Investment Review Board Committee and the staff of the ASRS have been working together to create a policy and procedure to evaluate and select professional service providers, entitled "Acquisition of Professional Services."

The policy and procedure will enable the ASRS to plan and purchase goods and services, including acquisition of investment managers and consultants. This policy will ensure compliance with all applicable laws and rules governing the ASRS, and enable the Retirement Board to participate in the process of evaluating and selecting professional service providers.

Mr. Maguire commended and shared his appreciation for Mr. Paul Matson, ASRS Senior Investment Manager, and for Mr. Bob Wittsell, ASRS Procurement Manager, for their great efforts and assistance in this matter.

Motion: Mr. Alan Maguire moved to approve the Policy and Procedure of Professional Services, including Investment Management and Investment Consulting, as recommended by the Investment Review Board Committee.

Mr. Norman Miller seconded the motion.

By a vote of 6 in favor, 0 opposed, 0 abstentions, 3 excused, the motion was approved.

9. Presentation, Discussion and Appropriate Action Regarding the Financial Futures Policy for Internal Investment Management.

Mr. Alan Maguire reported that in order to mitigate transaction costs and ensure full investment of the ASRS assets, the ASRS staff conducted an analysis on the internal usage of equity futures, which was presented to the Investment Review Board Committee (IRBC). The IRBC supports the internal usage of futures and is recommending this to the Board.

A policy and procedure, entitled “Internal Investment Management Authority to Trade Financial Futures,” was proposed. The purpose is to establish authority and responsibility for trades of financial futures conducted in the internal management of assets and portfolios, and to furthermore prevent unauthorized use of such contracts.

The ASRS Board will authorize use of financial futures contracts for one year commencing from a vote of the Board to authorize. There will be two subsequent annual renewal periods required by the anniversary of the initial authorization.

Motion: Mr. Alan Maguire moved to authorize the internal usage of equity futures according to the Financial Futures Policy and Procedure, as recommended by the Investment Review Board Committee.

Mr. James Bruner seconded the motion.

By a vote of 6 in favor, 0 opposed, 0 abstentions, 3 excused, the motion was approved.

10. Director’s Report.

Mr. Tom Finnerty, Legislative Liaison, reported on the status of current Senate and House Bills.

Note: Because the ASRS Board members would be convening to Executive Session, the order of agenda items were changed to accommodate the general public.

11. Board Requests for Agenda Items.

Dr. Chuck Essigs announced that the June, 1999 ASRS Board meeting scheduled for June 19th and 20th in Flagstaff has been canceled. The June, 1999 ASRS Board meeting has been rescheduled for Friday, June 11th at 9:00 a.m. in the 10th Floor Board Room of the Arizona State Retirement System office, 3300 North Central Avenue, Phoenix, Arizona.

12. Call to the Public.

There were no requests to speak from the Phoenix or Tucson public.

13. Report and Action on Superior Court Decision in *Dodd v. Arizona State Retirement System*.

Motion: Mr. James Bruner moved that the Board convene to Executive Session to discuss the court decision in *Dodd v. Arizona State Retirement System*.

Mr. Norman Miller seconded the motion.

By a vote of 6 in favor, 0 opposed, 0 abstentions, 3 excused, the motion was approved.

The ASRS Board recessed the Regular Session at 9:51 A.M.

The Board reconvened to Regular Session at 10:21 A.M.

Roll Call:

Present: Dr. Chuck Essigs, Mr. David Borg, Mr. James Bruner, Mr. Alan Maguire, Mr. Norman Miller.

Excused: Dr. Merlin DuVal, Mr. James Jenkins, Mr. Karl Polen, Mr. Ray Rottas.

Motion: Dr. Chuck Essigs moved that the Board take no action at this time.

Mr. David Borg seconded the motion.

By a vote of 5 in favor, 0 opposed, 0 abstentions, 4 excused, the motion was approved.

14. The next ASRS Board meeting is scheduled for Friday, May 21, 1999 at 9:00 a.m. in the 10th Floor Board Room of the ASRS Office, 3300 North Central Avenue, Phoenix, Arizona.

15. Adjournment of the ASRS Board.

Dr. Chuck Essigs, Acting Chairman adjourned the April 16, 1999 meeting of the ASRS Board at 10:22 a.m.

Respectfully submitted,

Jalene Trivino, Secretary

Date

LeRoy Gilbertson, Director

Date